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SUBJECT: TURKISH REGULATORS ON TAKEOVER OF UZAN'S BANK AND
ENERGY CONCESSIONS

REF: A. (A) ANKARA 4061

[B.](#) (B) ANKARA 4026

[C.](#) (C) ANKARA 3784

[1](#)1. (SBU) Summary: Turkish banking regulatory authorities say their July 3-4 decision to take over management (and revoke the license) of Uzan family-owned Imar Bank was the result of a severe bank liquidity squeeze, which was prompted by the government's earlier revocation of the family's energy concessions in southern Turkey. Bank regulators seized management control -- but not ownership -- and plan to liquidate the bank, paying off depositors but leaving other liabilities to the bank owners to cover. Energy market regulators say they were behind the government's June 12 decision to revoke the concession agreements of Cukurova Elektrik and Kepez, based on the companies' failure to transfer their electricity transmission assets to the state, as well as numerous other contractual violations. End Summary.

[1](#)2. (SBU) As reported in ref A, the GOT on June 12 announced that it had annulled the concession agreements of Cukurova Elektrik and Kepez, both owned by the infamous Uzan family, to operate eleven dams and a 5,000 kilometer energy transmission grid in southern Turkey. Energy Market Regulatory Authority (EMRA) President Yusuf Gunay told us that he had pressed the government for several weeks to take this step in response to the companies' failure to comply with various legal, regulatory, and contractual obligations.

[1](#)3. (SBU) According to Gunay, the main problem was the companies' refusal to transfer their transmission assets to the state, as required by the Electricity Law. Gunay explained that, while the original concessions authorized the companies to operate transmission facilities, the subsequent Electricity Law prohibited private operation of such facilities. As the concession agreement required the companies to conform with any future legislative changes, Gunay said, the Uzans had no legal basis to say "no" to the GOT. Moreover, per Gunay, the companies consistently ignored EMRA's pricing policies, failed to allow full third-party access to the grid, and failed to provide reliable service to industrial groups (notably the Sabanci Group).

[1](#)4. (SBU) On July 3-4, the Banking Regulation and Supervision Agency (BRSA) announced that it was revoking the license of Imar Bank, also owned by the Uzan family, and that it would take over management in order to liquidate the bank. BRSA Vice President Teoman Kerman explained the decision to us on July 11, as follows:

-- Until June 12, BRSA had no major problems with the bank. Although its group lending exceeded the legal limit (25 percent of net worth), the owners had injected additional capital and were complying with a BRSA-imposed timetable to reduce group lending to the legal limit. (Note: Kerman explained that, under Turkish law, banks have a transition period until end-2006 to reach the 25 percent limit, unless the group lending poses a threat to their viability before that date. In the case of Imar Bank, BRSA's assessment was that the group lending was not an imminent threat.)

-- After the government's June 12 revocation of the power concession agreements, BRSA grew concerned about the bank's viability. The electricity companies not only contributed significantly to the Uzan Group's profitability, but also were key sources of liquidity for the bank. When depositors began withdrawing funds after June 12, the bank lacked the liquidity to meet the demand. Bank management sought help from the BRSA, which legally could not help, and from the

Central Bank, which refused to inject liquidity because the bank lacked collateral.

-- On or about July 1, the bank management resigned en masse, after having paid out some TL 150 trillion (just over \$100 million dollars) to depositors. The owners called for a General Assembly to select a new management team, but BRSA determined that the bank's precarious state required immediate action. Kerman could not recall the exact chronology (and BRSA's announcement is unclear), but on July 3-4, BRSA revoked the bank's license, and transferred management to the Savings Deposit Insurance Fund (SDIF).

-- Unlike in previous takeovers, SDIF took over management control but not ownership of the bank, and also is guaranteeing only deposits rather than providing a blanket guarantee for all liabilities. Kerman explained that, in previous bank takeovers, the banks in question had a negative net worth, so SDIF had taken ownership and continued to operate the bank. Imar Bank, however, had a positive net worth of some TL 180 trillion. Under Turkish law, if SDIF takes over a bank with a positive net worth, it must pay that net worth to the owners. Moreover, nearly all of Imar Bank's non-deposit liabilities were owed to the Uzan Group, and the SDIF would also have had to pay those liabilities. Given these special circumstances, regulators determined that it would be less expensive to the government not to take ownership, but to seize management control, pay off depositors, and liquidate the bank.

-- As a result, the bank has stopped operating, and SDIF is preparing to cover all outstanding deposits (once it gains access to account information). It will take over and seek to liquidate the bank's assets -- mostly loans to Uzan Group companies -- by requiring borrowers to repay the loans over a schedule to be negotiated.

15. (SBU) Kerman insisted that BRSA's decision to take over the bank was based purely on the financial merits, and that there had been no political pressure of any kind. He estimated that the Uzan Group would have the financial wherewithal to repay most if not all of the loans owed to the bank, so the net cost to the Treasury of the takeover should be small. In the worst-case scenario, involving SDIF being unable to liquidate any of the bank's assets, the total cost to Treasury would equal the bank's deposits of TL 800 trillion.
PEARSON